

Message Text

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46

ACTION EA-14

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FM AMEMBASSY TOKYO

TO SECSTATE WASHDC IMMEDIATE 9419

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C O R R E C T E D C O P Y (TEXT)

E.O. 11652: N/A

TAGS: EFIN

SUBJ: FOREIGN DIRECT INVESTMENT

1. EMBASSY APPRECIATES OPPORTUNITY TO CONTRIBUTE VIEWS FOR USE BY UNDER SECRETARY CASEY IN APPEARANCE BEFORE STEVENSON SUB-COMMITTEE OF SENATE BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE. IN OVERALL TERMS EMBASSY BELIEVES THAT, WHILE THERE MIGHT WELL BE SOME OUTCRIES AND OFFICIAL EXPRESSIONS OF CONCERN IN JAPAN, SHORT OF THE MOST EXTREME RESTRICTIONS ON FDI BY US, WE SEE LITTLE POSSIBILITY OF RETALIATION IN FORM OF REVISED LAWS OR REGULATIONS ON PART OF JAPANESE GOVERNMENT. IT IS POSSIBLE THAT CERTAIN LESS FORMAL ACTIONS COULD BE TAKEN TO MAKE IT MORE DIFFICULT FOR US FIRMS TO INVEST IN JAPAN.

2. EMBASSY, IN PRESSING FOR MORE EQUAL TREATMENT FOR US FIRMS, HAS CONSISTENTLY POINTED OUT TO JAPANESE LIBERAL TREATMENT ACCORDED BY US TO JAPANESE FIRMS INVESTING IN US. THIS HAS BEEN A TELLING ARGUMENT, PARTICULARLY IN RECENT PAST AS JAPANESE INVESTMENT OVERSEAS HAS INCREASED AT RAPID PACE. RESTRICTIVE ACTIONS BY US AT THIS JUNCTURE WOULD REMOVE AVAILABILITY THIS ARGUMENT AND WOULD IN ALL LIKELIHOOD

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HALT FURTHER LIBERALIZATION MOVES ON PART OF GOJ.

3. THERE IS ONE AREA WHERE THE EMBASSY BELIEVES RESTRICTIVE LEGISLATION OF FDI, WHICH WOULD BECOME EFFECTIVE ONLY IF TEST OF RECIPROCITY WERE NOT MET, MIGHT BE A USEFUL TOOL IN IMPROVING TREATMENT ACCORDED TO US FIRMS IN JAPAN, I.E. BANKING AND NON-BANKING FINANCIAL BUSINESS. TO DATE GOJ HAS LIBERALIZED TO SIGNIFICANT EXTENT THE ESTABLISHMENT AND OPERATION OF FOREIGN BANK BRANCHES IN JAPAN. HOWEVER, SUCH BRANCHES REMAIN UNDER HEAVY-HANDED CONTROL OF JAPANESE CENTRAL BANK AUTHORITY, WITH SEVERE LIMITATIONS ON BOTH SOURCING OF FUNDS AND LENDING POLICIES. IN CONTRAST, USG REGULATION OF FOREIGN BANK ACTIVITY HAS BEEN MINIMAL AND MANY LARGE COMMERCIAL BANKS HAVE MADE SIGNIFICANT INROADS IN US DOMESTIC BANKING ACTIVITY, ESPECIALLY ON EAST AND WEST COASTS. THUS, LEGISLATION AND/OR REGULATIONS ON FOREIGN BANKS IN US LIMITING OPERATIONS TO SAME EXTENT AS THOSE OF US BANKS IN THEIR COUNTRY MIGHT WELL PROVIDE LEVERAGE NEEDED TO OBTAIN COMPARABLE TREATMENT FOR US BANKS OVERSEAS.

4. IN THIS CONNECTION, IT MAY BE NOTED THAT BOTH GOJ AND PRIVATE INTERESTS REACTED SWIFTLY AND VIGOROUSLY DURING MID-1973 TO OPPOSE POTENTIALLY RESTRICTIVE LEGISLATION INTRODUCED IN CALIFORNIA STATE LEGISLATURE DESIGNED TO CURB ACTIVITIES OF FOREIGN BANKS. ALTHOUGH THIS BILL HAS SINCE BEEN TABLED, AN INCREASED AWARENESS HAS DEVELOPED ON THE PART OF THE JAPANESE TOWARDS POSSIBLE FUTURE INTRODUCTION OF MORE COMPREHENSIVE FEDERAL LEGISLATION COVERING FOREIGN BANK OPERATIONS IN US. IN ADDITION, THE JAPANESE AUTHORITIES HAVE AS A RESULT BECOME MORE AWARE OF INDIRECT INFLUENCE THEIR TREATMENT OF AMERICAN BANK BRANCHES IN JAPAN MAY HAVE ON FORMATION OF SPECIFIC FEDERAL LEGISLATIVE PROPOSALS IN US.

5. NON-BANKING FINANCIAL BUSINESS IS EVEN MORE SEMERELY LIMITED THROUGH GOVERNMENTAL CONTROL EVEN THOUGH FOREIGN INVESTMENT HAS BEEN FULLY LIBERALIZED. FOR EXAMPLE, IN LIFE INSURANCE ONLY ONE FIRM HAS BEEN PERMITTED ENTRY AND THIS ON A VERY LIMITED SCALE DESPITE THE FACT THAT MOST JAPANESE LIFE INSURANCE COMPANIES ARE FAR LARGER THAN THE LARGEST US FIRM. NON-LIFE INSURANCE COMPANIES DO NOT GET NATIONAL TREATMENT. ONLY ONE SECURITIES COMPANY HAS BEEN GRANTED FULL BRANCHES LICENSE TO DO BUSINESS IN JAPAN.

SHOESMITH

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